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TO RUEHC/SECSTATE WASHDC PRIORITY 9168
INFO RUEHAC/AMEMBASSY ASUNCION 5841
RUEHBO/AMEMBASSY BOGOTA 3141
RUEHBR/AMEMBASSY BRASILIA 7002
RUEHBU/AMEMBASSY BUENOS AIRES 4246
RUEHCV/AMEMBASSY CARACAS 1539
RUEHPE/AMEMBASSY LIMA 1516
RUEHMN/AMEMBASSY MONTEVIDEO 3780
RUEHQT/AMEMBASSY QUITO 4179
RUEHSG/AMEMBASSY SANTIAGO 8725
RHEHNSC/NSC WASHINGTON DC
RHEBAAA/DEPT OF ENERGY WASHINGTON DC
RUCPDO/DEPT OF COMMERCE WASHINGTON DC
RUEATRS/DEPT OF TREASURY WASHINGTON DC

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STATE FOR WHA/AND
TREASURY FOR SGOOCH
ENERGY FOR CDAY AND SLADISLAW

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TAGS: [ECON](#) [EINV](#) [ENRG](#) [EPET](#) [PGOV](#) [BL](#)

SUBJECT: GOB ON GAS: TO COMPENSATE OR NOT TO COMPENSATE?

REF: A. LA PAZ 1157

[1](#)B. LA PAZ 1198

[1](#)C. LA PAZ 1248

[1](#)D. BRASILIA 882

[1](#)1. (SBU) Summary: President Morales reportedly stated on May 11 that the GOB did not have to compensate hydrocarbons companies for their losses due to nationalization if such firms had "recovered investments and accrued some earnings." In contradiction to Morales' statement, the GOB agreed on May 10 to negotiate compensation for the nationalized refineries owned by Petrobras (Brazil), as well as discuss the operating conditions and contract terms for Petrobras, respecting existing legal norms. End summary.

Morales Says, "No Need to Compensate"

[1](#)2. (SBU) President Morales, while attending a European Union, Latin America, and Caribbean summit in Vienna, stated that "if foreign energy firms have recovered investments and accrued some earnings, there is no reason to compensate them" for nationalization (ref A), according to press reports. This statement may confirm sector fears that the GOB does not intend to provide compensation for the taking of foreign firm assets, including shares, board control (ref C), and the ownership of production. According to Brazilian Embassy officials, Brazil will not respond to Morales' statement.

Meanwhile Bolivia and Brazil Agree to Negotiate

[1](#)3. (SBU) According to press reports, the Brazilian Minister of Energy and Mines, the Bolivian Hydrocarbons Minister, and the presidents of YPFB (Bolivian state oil company) and Petrobras (Brazilian semi-state company) held a five-hour meeting on May 10 to discuss nationalization details, which have created increasing tension between the two countries (ref B). The meeting participants reportedly agreed to create a high-level commission, as well as three technical working groups, to negotiate Petrobras' operating conditions during the six-month transition period from May 1 to November 1, the definition of necessary conditions and contracts for

the production and commercialization of gas, the mechanisms and forms of negotiated compensation for Petrobras' refineries, and the price of gas. Brazil accepted the GOB's nationalization decree, as long as it was applied in accordance with existing legal and contractual norms, by which the GOB agreed to abide (in contradiction to Morales' statement above).

¶4. (SBU) Brazilian Embassy official, Alfredo Camargo, told us on May 11 that the bilateral meeting was positive and polite (in contrast to the May 4 meeting in Puerto Iguazu (ref D), during which President Lula accused President Morales of betrayal, and Morales claimed that Lula's aides had treated him "like an Indian"). Camargo said that the Brazilian government's agreement to discuss a gas price increase within the framework of the existing Gas Sales Agreement between the two countries was quid pro quo for the GOB's agreement to discuss compensation for Petrobras' refineries. GOB Hydrocarbons Minister Andres Soliz Rada assured the Brazilians that the naming of board members was a public show, that the board members would not be installed immediately, and that there would be a transition period, during which the board take-over would be negotiated with Petrobras, according to Camargo. Camargo added that the Brazilian acceptance of the GOB's nationalization decree did not mean that Petrobras was giving up its options for legal recourse.

¶5. (SBU) Comment: Even if the GOB does negotiate a satisfactory deal with Petrobras, under heavy Brazilian government pressure, Morales' remarks in Vienna imply that other foreign investors, including those from the U.S., might be left out in the cold. End comment.
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